

# External Audit Update for the Audit, Governance and Standards Committee of Maidstone Borough Council

**Year ended 31 March 2015**

20 July 2015

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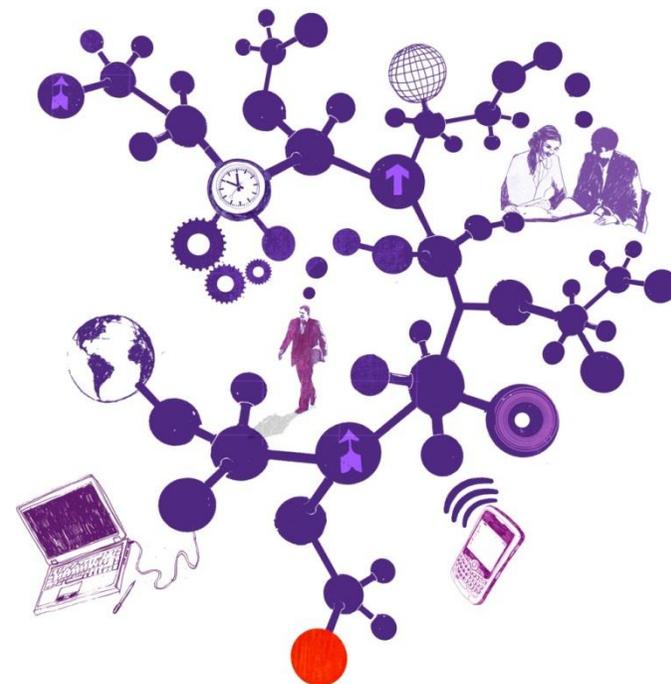
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# Introduction

This paper provides the Audit, Governance and Standards Committee with a report on progress in delivering our responsibilities as your external auditors. The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you; and
- a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

Members of the Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector (<http://www.grant-thornton.co.uk/en/Services/Public-Sector/>). Here you can download copies of our publications including:

- Spreading their wings: Building a successful local authority trading company
- Easing the burden, our report on the impact of welfare reform on local government and social housing organisations
- All aboard? our local government governance review 2015
- Stronger futures: development of the local government pension scheme
- Rising to the challenge: the evolution of local government, summary findings from our fourth year of financial health checks of English local authorities
- 2020 Vision, exploring finance and policy future for English local government
- Where growth happens, on the nature of growth and dynamism across England

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Darren Wells, your Engagement Lead or Keith Hosea, your Audit Manager.

# Progress at July 2015

Work	Planned date	Complete?	Comments
<p><b>2014-15 Accounts Audit Plan</b> We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on your 2014-15 financial statements.</p>	March 2015	Yes	We presented the Audit Plan to the March meeting of the Audit Committee. This set out the risks we identified in our audit and the work we proposed to carry out to address these.
<p><b>Interim accounts audit</b> Our interim fieldwork visit includes:</p> <ul style="list-style-type: none"> <li>• updating our review of the Council's control environment</li> <li>• updating our understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> </ul>	January 2015 March 2015	Yes	We updated our understanding of your control environment and systems in January. We carried out further work, including early testing of transaction streams, in March. We reflected our initial findings from this work in the Audit Plan we issued in March. We have no further issues to report to you at this point.
<p><b>2014 -15 final accounts audit</b> Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2014-15 financial statements</li> <li>• proposed opinion on the Council's accounts</li> </ul>	July 2015	N/A	<p>This work is underway and we will give the Committee a brief verbal update on progress at the meeting.</p> <p>We will report the findings from our audit to the September meeting of this Committee.</p>

# Progress at July 2015

Work	Planned date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b>            The scope of our work to inform the 2014-15 VfM conclusion comprises:</p> <ul style="list-style-type: none"> <li>• Review of your arrangements to secure financial resilience in the foreseeable future;</li> <li>• Review of your arrangements to challenge how to secure value for money.</li> </ul>	<p>March 2015            July 2015</p>	<p>N/A</p>	<p>We completed the initial risk assessment for this work in March and reflected our findings and the work to be completed in the Audit Plan which we presented to the previous meeting.</p> <p>Further work to assess your arrangements is in progress and we will report a summary of our findings in our Audit Findings Report in September.</p>
<p><b>2014/15 Certification of claims</b>            We expect that the housing benefit subsidy claim will be the only return we are required to certify this year.</p>	<p>June to July 2015</p>	<p>N/A</p>	<p>We have made good progress in our certification work on this claim and will provide a brief verbal update at the meeting.</p>

# Spreading their wings: Building a successful local authority trading company

## Grant Thornton

Our report, 'spreading their wings' focuses on how to set up a local authority trading company and, importantly, how to make it successful. It is available at <http://www.grant-thornton.co.uk/Global/spreading-their-wings-LATC-report-2015.pdf>

The trend in using alternative models to protect and develop services has continued over the last year. As councils continue to confront financial pressure, many have considered how to reduce costs, generate income and improve efficiency by introducing commercial structures.

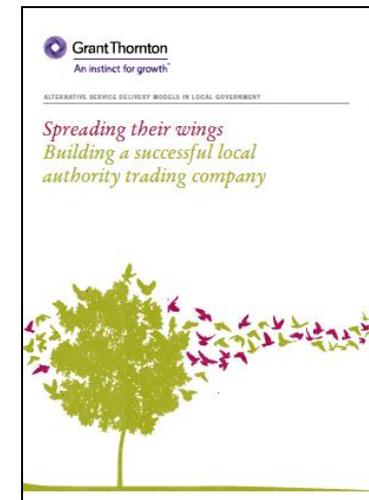
The introduction of LATCs has been a key part of this innovation and we predict that the number will grow in the next five years. While restricted initially to areas such as entertainment or airports – for example Birmingham's NEC and Manchester Airport – LATCs have grown into new areas such as highways, housing and education. More recently, LATCs dedicated to the delivery of social care services have emerged.

We recognise that the delivery of a successful company is not easy. In light of this, this report provides practical guidance on the steps that need to be followed in:

- deciding to set up a local authority trading company
- setting up a local authority trading company
- building a successful local authority trading company.

Grant Thornton has worked with many LATCs and continues to support growth in this area. We have based this report on market research, interviews with councils and LATCs, and our own experience of working with LATCs and councils. It is a practical guide drawing on our own experiences but also on the successful companies we have worked with.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



# Welfare Reform Review: Easing the burden

## Grant Thornton

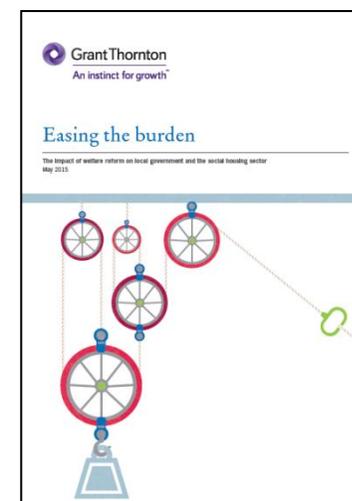
Our second welfare reform report, 'Easing the burden' provides insight into the impact of welfare reform on English local authority and social housing organisations over the past two years. It is available at <http://www.grant-thornton.co.uk/Global/Easing-the-burden-welfare-reform-report.pdf>

It focuses on the governance and management arrangements being put in place across the two sectors to deliver reform, the early signs of how successful the reforms have been and the upcoming issues and risks on the reform agenda in the wider context of social impact.

The key messages include:

- The cumulative effect of various welfare reforms is putting a significant financial strain on those people needing welfare support
- The majority of local authorities and housing associations surveyed have seen a rise in average council tax and rent arrears since 2012/13, which they attributed at least in part to welfare reform
- There has been limited movement to smaller properties as a result of the spare room subsidy and benefit cap reforms,
- Local authorities are becoming reliant on Discretionary Housing Payments (DHP) to plug the gap for those unable to pay.
- Any reduction in DHP funding from central government is therefore likely to result in further increases to rent arrears and homelessness in the next two years, unless mitigated by other means
- The withdrawal of ring-fenced hardship funding (formerly the Social Fund) will result in a reduction of provision, as the majority of local authorities told us that they are not in a position to fund this from their own revenue
- Reductions in DHP, hardship funding and general funding reductions inhibit the ability of local authorities and housing associations to pursue early intervention policies, preventing people falling into long-term benefit dependency. This has cost implications for the medium- to long-term.
- The cost of administering housing benefit is rising as a result of welfare reform. Around half of local authorities and housing associations surveyed said housing benefit is becoming significantly more costly to administer, partly due to the increased complexity of cases.

Hard copies of our report are available from your Engagement Lead or Audit Manager.



# Creating a sustainable financial future: Local government finance roundtable

## Grant Thornton

Our report summarises the findings of our recent round table discussions with 34 local authority senior finance officers, looking at how to create a sustainable financial future and incentivise authorities to become 'engines of growth' for the English regions.

The discussion was based around two key questions:

- What funding model is needed to create a sustainable financial future for local government?
- What funding model is needed to incentivise authorities to support local and regional growth?

The consensus view was that the current funding model is 'broken' and the report argues that a more balanced relationship is needed between central and local government in England. In particular, a new funding model is required that provides local government with more autonomy, places its financial stability in its own hands and addresses the dual needs of 'resource equalisation' and 'incentivising growth'.

Taking on board these helpful insights and our wider research, Grant Thornton recommends that within:

- one year the Government should assess the impact of Revenue Support Grant reductions on councils ability to deliver safe services (and put in the necessary safeguards to protect the vulnerable) and should provide clarity on the long term retention of business rates growth by local government.
- three years pilots of different models of local government autonomy should be tested
- five years local government should be autonomous with business and council tax raising powers



# The Queen's Speech 2015 – what it means for local government

## Local government issues

The Queen's Speech was presented to Parliament on 27<sup>th</sup> May 2015 and set out the new government's policies and proposed legislative programme for the next parliamentary session. There are a range of proposals impacting on local government, including:

- A Cities and Local Government Devolution Bill aimed at boosting growth and increasing local government productivity and efficiency. It will provide the legislative framework to deliver the Greater Manchester deal and other future deals. The provisions of the bill will be applied to specified combined authorities and their areas, led by an elected mayor.
- A Housing bill extending right to buy legislation to housing associations and requiring local authorities to dispose of high-value vacant council houses. This bill will also introduce measures to simplify and speed up the neighbourhood planning system other changes to housing and planning legislation to support housing growth.
- An Education and Adoption bill that aims to speed up intervention in failing schools and requires inadequate, and coasting schools to become academies. It is also planned to introduce regional adoption agencies, working across local authority boundaries to reduce delays in the adoption system.

# Local Government New Burdens

## Local government issues

The National Audit Office (NAO) published its review of new burdens on local government on 5<sup>th</sup> June 2015.

In 2011, the government reaffirmed its commitment to the New Burdens Doctrine (the Doctrine). The Doctrine set out how the government would ensure that new requirements that increased local authorities' spending or reduced their income did not lead to excessive council tax increases. The Doctrine commits the government to assess and fund extra costs for local authorities from introducing new powers, duties and other government-initiated changes.

The NAO report considers the new burdens regime, how it is managed and overseen and the DCLG's arrangements for new burdens assessments. It concludes that:

- government departments have embraced the new burdens Doctrine and the DCLG's guidance has promoted consistent assessment and encouraged consultation with local government on the impact of new requirements;
- however, the government is not sufficiently open about which new burdens are assessed or the outcomes of assessments; and
- the DCLG has not promoted post implementation reviews to ensure funding is adequate.

The NAO also concludes that the DCLG needs to use intelligence from new burdens regime better, to improve its understanding of the pressures affecting local authorities' financial sustainability.

# English devolution – local solutions for a successful nation

## Local government issues

The Local Government Association's (LGA) white paper on devolution includes a warning to the new government that the principle of cuts without reform could stifle growth and development and challenge the sustainability of vital local services. The paper sets out:

- Why devolution matters
- The principles to sustain devolution
- A road map to follow to help deliver reform
- Proposals that will strengthen accountability and governance in the new system

It states that:

*Local government has done more than any other part of the public sector over the course of the last parliament to make the public finances more sustainable and managed to do so while protecting front line services. All evidence suggests that this cannot continue over the next five years without more radical reform. Given the continuing need to reduce the national deficit, only a reinvigorated agenda for reform, underpinned by sustainable funding for local services, will deliver the ambition of the new Government for our communities and national economy.*

# Understanding your accounts – Member guidance

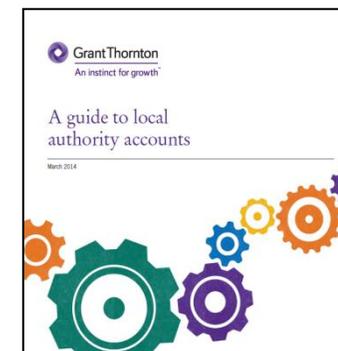
## Accounting and audit issues

As members of the Committee responsible for approving and issuing the Council's financial statements, you are not expected to be financial experts, and local authority financial statements are complex and can be difficult to understand (even to those from a financial background!).

In 2014 we prepared a guide for Members to use as part of their review of the financial statements. It explains the key features of the primary statements and notes that make up a set of financial statements. It also includes key challenge questions to help Members assess whether the financial statements show a true and fair view of their authority's financial performance and financial position. Any new members of the Audit, Governance and Standards Committee may find this guide helpful.

The guide considers the :

- explanatory foreword – which should include an explanation of key events and their effect on the financial statements
- annual governance statement – providing a clear sense of the risks facing the authority and the controls in place to manage them
- movement in reserves statement – showing the authority's net worth and spending power
- comprehensive income and expenditure statement – reporting on the year's financial performance and whether operations resulted in a surplus or deficit
- balance sheet – a 'snapshot' of the authority's financial position at the year end; and
- other statements and additional disclosures



We have provided copies of the Guide to Local Authority accounts to the Council for distribution to Committee members.

# 2014/15 Accounts hot issues

## Accounting and audit issues

As part of our audit of local authorities 2014/15 accounts we will be considering the following issues

**Provisions for business rates appeals** – as a result of a change in rules relating to business rates appeals we do not expect to see provisions for unlodged appeals in 2014/15 accounts

**Early payment of pension contributions** – we expect authorities that are spreading the impact of pension deficit contributions to obtain legal advice (either internally or externally) to determine the amounts that are chargeable to the general fund and the accounting judgements and treatment in the 2014/15 accounts should reflect the advice received

**Inclusion of overtime in the calculation of holiday pay** – authorities that are likely to be affected in a material way by the Employment Appeal Tribunal judgement on the extent to which overtime pay should be included in the calculation of holiday pay should include an appropriate provision in their 2014/15 accounts

### Challenge question

**Has your review of the Council's 2014/15 accounts included consideration of these hot issues?**



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